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In the Supreme Court of the United States

October Term, 1980

No.

JAMES E. NICOLETTE, JOHN J. PETITTO,
RONALD D. SIRK,
WESTMORE DENTAL ARTS, P.C., and
WESTMORELAND DENTAL APPLIANCES, INC.,
Petitioners

v.

THE HONORABLE ALAN N. BLOCH
and
FRANK M. DENISON, D.D.S., INC., and
WILLOW BEACH LABORATORY, INC.,
Respondents

PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT
AT No. 80-2168

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QUESTIONS PRESENTED

1. In a suit alleging misappropriation of a trade secret, should a court order discovery of a defendant's trade secret by his competitor without any protective conditions at all?

2. Can a court order a professional to use his professional skills to be viewed by a competitor?

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OPINIONS OF THE COURTS BELOW

The District Court for the Western District of Pennsylvania on July 10, 1980 denied petitioners' motion for a protective order against discovery that had been ordered on June 20, 1980 on plaintiffs' request, ex parte and without notice (Exhibit A). The opinion of July 10 is appended as Exhibit B.

The District Court on August 5, 1980 denied petitioners' motion for reconsideration. The opinion is appended as Exhibit C.

The Court of Appeals for the Third Circuit on August 25, 1980 denied petitioners' motion for a writ of mandamus to Honorable Alan N. Bloch, the judge of the District Court. The order of August 25 is as follows:

> "The foregoing Motion is denied. Judge Rosenn would have granted the petition and issued a writ directing the Court to appoint an impartial expert to make the examination."

JURISDICTION

The order of the Court of Appeals for the Third Circuit was entered on August 25, 1980, and this petition for certiorari is filed within 90 days. This Court's jurisdiction is invoked under 28 U.S.C. §1254 (1).

RULE INVOLVED

Rule of Civil Procedure 26(c) (7):

> Upon motion by a party...and for good cause shown, the court in which the action is pending...may make any order which justice requires to protect a party or person from annoyance, embarrassment, oppression, or undue burden or expense, including one or more of the following:...(7) that a trade secret or other

confidential research, development, or commercial information not be disclosed or be disclosed only in a designated way...

STATEMENT OF CASE

This petition arises out of discovery proceedings in Civil Action No. 80-842M, now pending in the United States District Court for the Western District of Pennsylvania before the Honorable Alan N. Bloch, respondent. Jurisdiction of the case was based on diversity of citizenship.

Petitioners are the defendants in the civil action. Defendant Dr. James E. Nicolette is a dentist specializing in the professional work of designing and fitting dentures for patients and in providing the dentures. The other defendants are the professional corporations of which he is a shareholder and employees of those corporations.

Frank M. Denison, D.D.S., Inc., a plaintiff in the civil action, is a professional corporation the stock of which is owned by Dr. Frank M. Denison, who is also a dentist specializing in dentures. The other plaintiff is an associated dental laboratory which manufactures and repairs the dentures. These plaintiffs are the other respondents.

In their complaint in the civil action, plaintiffs allege that a method of designing and fitting patients for dentures has been developed by Dr. Hoyt Eagerton of South Carolina, and that by contract with Dr. Eagerton plaintiffs obtained the right to use Dr. Eagerton's methods on payment of prescribed royalties. Plaintiffs also allege that defendant Dr. Nicolette has hired two laboratory technicians formerly employed by plaintiffs and is now using the Eagerton methods. From this plaintiffs conclude that Dr. Nicolette has stolen and is using the Eagerton "trade secret", and they ask for an injunction and damages.

The answer of Dr. Nicolette, which is not yet due to be filed, will admit the hiring of the laboratory technicians who had previously left or decided to leave the employ of Dr. Denison. The answer will further allege that Dr. Nicolette has been careful never to discuss the Eagerton methods with the technicians, and does not know or care what methods Dr. Denison or Dr. Eagerton employ. The answer will further allege that Dr. Nicolette uses only methods which he has himself developed, and that these methods constitute his own trade secret.

Acting under Rule of Civil Procedure 34(b), plaintiffs requested permission "to...enter...the premises" of defendants "for purposes of inspecting and photographing...all operations and procedures conducted on said premises by defendants" (Exhibit A). An ex parte order, entered without notice, granted this permission. Dr. Nicolette moved for a protective order which, with respect to the inspecting and photographing by plaintiffs of Dr. Nicolette's operations on patients, was denied by Judge Bloch (Exhibit B). Defendants filed a motion for reconsideration, asking that the inspection be only by a disinterested expert and that any information obtained "be used only for the purposes of this case, and shall not be used for business or competitive purposes." Judge Bloch denied the motion for reconsideration in a Memorandum Opinion and Order (Exhibit C).

Defendants then filed with the Court of Appeals a petition for a writ of mandamus, which the Court of Appeals by a two to one vote denied on August 25, 1980. The order appears at page 2.

The result is that the Court of Appeals, merely on the unsupported allegation that defendant Dr. Nicolette and his associates are using Dr. Eagerton's trade secret, is permitting the District Court to require defendants to use their profes-

sional skills and perform their trade secret in front of Dr. Denison, without any protective conditions at all as to how he can use such information.

QUESTIONS PRESENTED

1. **In a suit alleging misappropriation of a trade secret, should a court order discovery of a defendant's trade secret by his competitor without any protective conditions at all?**

2. **Can a court order a professional to use his professional skills to be viewed by a competitor?**

REASONS FOR GRANTING THIS WRIT

1. **The decision of the Court of Appeals is in conflict with the decisions of five Courts of Appeals on the same matter.**

The decision of the Court of Appeals, with one judge dissenting, means that in the Third Circuit a plaintiff, merely by alleging that a defendant has stolen his trade secret, can discover the defendant's trade secret. Five Courts of Appeals have held that, although trade secrets are not privileged, they are to be disclosed only in a way necessary for orderly litigation and not to enable the other party to learn them for his own profit.

Chemical and Industrial Corp. v. Druffel, 301 F.2d 126, 130 (6th Cir. 1962), approved a discovery order

> "...preventing public disclosure of information obtained...and...preventing plaintiff's use of such information, should its asserted cause of action against defendant fail..."

Olympic Refining Co. v. Carter, 332 F.2d 260, 266 (9th Cir. 1964), *cert. denied*. 379 U.S. 900, allowed discovery

> "...subject to such reasonable restriction as may be necessary and practicable to prevent unnecessary disclosure of any present trade secrets."

Covey Oil Co. v. Continental Oil Co., 340 F.2d 993, 999 (10th Cir.), *cert. denied*, 380 U.S. 964 (1965), approved subpoenas because

> "...The documents were made available only to counsel and independent certified public accountants and only for the purposes of the case. The Court forbade the use of the material 'for business or competitive purposes.'"

Natta v. Zletz, 405 F.2d 99, 101 (7th Cir.) *cert. denied*, 395 U.S. 909 (1969), directed a protective order:

> "Natta's counsel may inspect the polyethylene documents...to be supplemented by a district court clause specifically forbidding Natta's counsel to make any disclosure to Natta..."

And *United States v. United Fruit Co.*, 410 F.2d 553, 556 (5th Cir.), *cert. denied*, 396 U.S. 820 (1969), held:

> "...the courts nevertheless will exercise their discretion to avoid unnecessary disclosure of such information, particularly where the action is between competitors..."

The district court ordered a petitioner to treat a patient in the presence of plaintiff. Petitioner offered to treat a patient in the presence of a disinterested expert, and even to treat a patient in the presence of plaintiff's attorney, on a promise of confidentiality. Under the decision of the Court of Appeals, plaintiff will learn petitioner's trade secret free of any restrictions on its use.

2. The Court of Appeals has sanctioned a departure by the lower court from the accepted and usual course of judicial proceedings.

The effect of the decision of the Court of Appeals is to deprive Dr. Nicolette of his day in court because he loses the lawsuit before it begins. To date there has been no testimony, or even an affidavit, to support plaintiffs' claim of the theft of a trade secret. Yet Dr. Nicolette is to be forced to allow plaintiffs to watch him treat a make-believe patient and to photograph his procedures.

But "discovery...has ultimate and necessary boundaries": *Hickman v. Taylor*, 329 U.S. 495, 507 (1946). A moving party may perform tests, but he cannot require his opponent to perform tests: *Sladen v. Girltown, Inc.* 425 F.2d 24, 25 (7th Cir. 1970).

Heathman v. U.S. District Court, 503 F.2d 1032, 1033 (9th Cir. 1974), holds that the "merits of defendants' claims" must be considered before discovery where the discovery would mean the "potential irreparable loss of defendants' claimed rights." And *Goldman v. Checker Taxi Co.*, 325 F.2d 853, 856 (7th Cir. 1963), holds that the appellate court should interfere with a district court's discovery order when its decision is "improvident" and affects the "substantial rights" of a party.

Once plaintiffs have observed and photographed Dr. Nicolette's procedures, they can dismiss their action, use those procedures, and Dr. Nicolette will have no remedy. Indeed, petitioners proposed an order that information obtained "not be used for business or competitive purposes.", and this proposal was denied by the district court.

3. The petition for a writ of mandamus properly raises the issue.

Mandamus is of course an extraordinary writ, and normally appellate review is not sought before final judgment.

But in the present case compliance with the order to treat a patient in the presence of plaintiffs would have irretrievably deprived the petitioner dentist of his trade secret and given it to plaintiffs, solely on the unsupported allegation that petitioner was using plaintiffs' secret.

Plaintiffs can point to no decision of any court requiring a defendant to disclose his trade secret to a plaintiff merely on plaintiff's unsupported allegations. Under these circumstances, *Schlagenhauf v. Holder*, 379 U.S. 104, 110 (1964) rules:

> "...the challenged order...appears to be the first of its kind in any reported decision in the federal courts under Rule 35...
>
> However, in this instance the issue concerns the construction and application of the Federal Rules of Civil Procedure. It is thus appropriate for us to determine on the merits the issues presented and to formulate the necessary guidelines in this area."

Mandamus is "an appropriate vehicle to review orders compelling the production of documents or testimony claimed to be privileged or covered by other more general interests in secrecy": *Iowa Beef Processors, Inc. v. Bagley*, 601 F.2d 949, 953 (8th Cir. 1979), *cert. denied*, 99 S. Ct. 1997 (1979). Writs of mandamus "have been employed to prevent the enforcement of orders allowing excessive discovery": *United States v. Hemphill*, 369 F.2d 539, 543 (4th Cir. 1966). "In precisely such areas as discovery, supervisory mandamus would be expected to have its greatest value.": *S.E.C. v. Stewart*, 476 F.2d 755, 764 (2d Cir. 1973).

We submit that this mandamus procedure is much more seemly than to require petitioner to disobey the order of the lower court and then to appeal from his punishment for contempt.

CONCLUSION

Because a plaintiff's unsupported allegation of the theft of a trade secret does not justify the gift of a defendant's trade secret to plaintiff, the Court of Appeals, contrary to other Courts, has departed from the usual and accepted course of judicial proceedings, so that a writ of certiorari should issue.

Respectfully submitted,

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EXHIBIT A

REQUEST FOR PERMISSION TO ENTER DEFENDANTS' PREMISES FOR PURPOSES OF INSPECTION AND PHOTOGRAPHING

Plaintiffs request permission to enter, within ten (10) days of the commencement of the above-captioned action, the premises occupied by FAY-WEST at the Ames Shopping Plaza, Route 119 South, Scottdale, Pennsylvania, during regular business hours, for purposes of inspecting and photographing said premises, and all operations and procedures conducted on said premises by Defendants, or any of them, in connection with the sale, fitting, manufacture and/or repair of dentures, together with all items of equipment, instruments, supplies and/or materials used in connection with such business.

EXHIBIT B

THE COURT: This is the time set by the court to hear the defendants' motion for protective order in the matter of Denison v. Westmore Dental Arts, a professional corporation, filed at Civil Action 80-842.

The first matter that I have discussed with counsel is the plaintiff's request to go upon the defendant's premises to observe the processes used in their business and to photograph them.

This observing of the processes and photographs was ordered by Judge Cohill on June 20, 1980. The defendants are worried about disruption of the operation of their business.

I order that the examination and photography go on during business hours. However, the defendants' patients are not to be disturbed in any way. Their photographs are not to be taken. The plaintiffs will bring their own patient to the defendant's laboratory and put their own patient through the process and will pay the defendant whatever the normal charges are for a patient to go through that process.

I am assuming the defendants' employees and materials are going to be involved in the preparation of dentures for your sample patient and they are entitled to be paid for that whatever the going rate is, and the plaintiffs are not to disturb the operation or interfere with the operation of the defendants' business...

And I am going to allow Dr. Denison to be present, as I would allow your doctor to be present during the examination of their process.

EXHIBIT C

MEMORANDUM OPINION

BLOCH, District J.

The Court is confronted for the third time with the question of whether, and under what conditions, plaintiffs in this action should be permitted to observe and photograph the processes used in defendants' business.

Plaintiffs and defendants are both in the business of manufacturing and fitting dentures. Plaintiffs claim their method of doing business is a trade secret, and charge defendants with stealing it.

At the same time plaintiffs filed their complaint, they moved for expedited discovery, part of which was to include the observation of defendants' business practices. The Court granted their motion ex parte. Almost three weeks later, defendants moved for a protective order, which would have, among other things, prevented the visit. Alternatively, defendants asked that plaintiffs' observations be conducted outside normal business hours. Plaintiffs argued that the secret they were attempting to protect involved a *process*, and not any particular piece of equipment or other tangible object. To view defendants' physical plant sitting idle would yield them nothing. What they were interested in was the defendants' method or means of operation. The Court ordered the defendants to permit plaintiffs to view their process. However, it ordered steps to insure that none of defendants' patients be disturbed in any way. To the extent that plaintiffs wished to view and photograph defendants' waiting room and examination room, that was to be done when no patients were present. If plaintiffs wished to see a patient fitted with dentures, they must provide their own patient and pay the defendants whatever they would normally charge for such a procedure. That part of the plant

in which patients would not be found could be observed at any time mutually convenient to the parties.

Defendants also asked the Court to prohibit the plaintiff, Dr. Frank M. Denison, from participating in the observations of their process. Defendants' counsel represented that considerable ill feeling existed between Dr. Denison and the defendant, Dr. James E. Nicolette. The Court felt that this was not sufficient reason to prohibit him from participating in the preparation of this litigation, and agreed with plaintiffs' counsel that Dr. Denison was the individual best qualified to observe and understand the process to be viewed.

Now defendants have allowed another three weeks to pass, and have asked this Court to reconsider its previous order. They ask particularly that Dr. Denison not be permitted to view defendants' process. We have indeed reconsidered the question, but find our original decision sound.

Fed. R. Civ. P. 26 (c)(7) provides: "Upon motion by a party . . . from whom discovery is sought, and for good cause shown, the court in which the action is pending. . . may make any order which justice requires,. . . including. . . that a trade secret or other confidential research, development, or commercial information not be disclosed or be disclosed only in a designated way. . ."

The Courts have repeatedly held that trade secrets are not entitled to absolute protection. See e.g., *U.S. v. International Business Machines Corp.*, 67 FRD 40 (D.C.N.Y. *1975*); *LaChemise Lacoste v. General Mills, Inc.*, 53 FRD 596 (D.C. Del. 1971), *aff'd* 487 F.2d 312; *Paul v. Sinnott*, 217 F.Supp. 84 (1963); *A. H. Robins Co. v. Fadely*, 299 F.2d 557 (5th Cir. 1962). However, the party requesting discovery carries the burden of demonstrating the relevance and need for the revelation of the secrets. *Hartley Pen Co. v. U.S. Dist. Court for Southern Dist. of Cal.*, 287 F.2d 324 (9th Cir. 1971).

In a case such as this where one party is accusing another of stealing his trade secret, the relevance of discovering exactly what the defendant is doing is apparent. The overriding factual question presented by the case is whether the defendant is doing the same thing as the plaintiff. There can be no better way of determining that than looking and seeing.

To say that trade secrets may be discovered is not to say, however, that they are not entitled to any protection. Frequently they are revealed only after a protective order has been entered limiting their use to the litigation then pending and prohibiting their use for commercial or business purposes. Defendants have not requested such an order, however. Their first concern is to prevent Dr. Denison from observing defendants' operations. They hope to prevent Dr. Denison from learning the defendants' trade secret through discovery in this lawsuit.

Given the nature of this lawsuit, it seems inevitable that, absent early settlement, every aspect of defendants' operations will be fully revealed and closely analyzed. Plaintiffs allege defendants have stolen their trade secret; defendants reply they do not utilize plaintiffs' trade secret but have a trade secret of their own. In order to fairly decide this case, the Court or the jury must know as much as possible about the operations of both plaintiffs and defendants. From the plaintiffs' point of view, the person best qualified to aid in this discovery is clearly Dr. Denison. No outside expert can possibly be as capable of comparing Denison's process with Nicolette's process as Dr. Denison himself. He is his own best expert.

In these circumstances, defendants' admitted legitimate interest in protecting their trade secret must bow to plain-

tiffs' right and the Court's duty to discover the full truth of the facts involved in this case.

An appropriate order will be issued.

/s/ALAN N. BLOCH
United States District Judge

Date: 8/5/80

ORDER

AND NOW, this 5th day of August, 1980, upon consideration of Defendants' Motion for Reconsideration filed in the above captioned matter on July 30, 1980,

IT IS HEREBY ORDERED that said Motion is DENIED.

/s/ALAN N. BLOCH
United States District Judge